

Message Text

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TAGS: PFOR, PINT, CE

SUBJ: PRIME MINISTER BANDARANAIKE ON RECENT POLITICAL
DEVELOPMENTS

1. SUMMARY: MRS. BANDARANAIKE SEEMS RELIEVED
CABINET CRISIS IS OVER AND HAS ATTRIBUTED IT
PRIMARILY TO EFFORTS TO TROTSKYITE LSSP PARTY
TO STRENGTHEN ITSELF AT EXPENSE HER SRI LANKA
FREEDOM PARTY. ALTHOUGH SHE HAS TAKEN RISK IN
OUSTING FINANCE MINISTER PERERA AND HIS
COLLEAGUES, SECURITY SITUATION IN COUNTRY IS
GOOD, FOOD SUPPLY ADEQUATE, AND MAJOR LABOR

TROUBLES ARE UNLIKELY. NONETHELESS SHE BELIEVES
HER RECONSTRUCTED GOVERNMENT FACES CRITICAL ECONOMIC
SITUATION AND MUST DECIDE WHETHER
IT IS POLITICALLY FEASIBLE TO ACCEPT ADJUSTMENT
OF EXCHANGE RATES (DEVALUATION)
IN ORDER OBTAIN OVER \$90 MILLION IMF ASSISTANCE.
PM IS TENTATIVELY PLANNING TO VISIT ROME NEXT
MONTH TO RECEIVE MEDAL FROM FAO BUT IS CONSIDERING
POSTPONING HER SOUTHEAST ASIAN TRIP
UNTIL INTERNAL POLITICAL SITUATION COOLS
OFF. SHE THINKS LSSP WILL INCREASE ITS ATTACKS
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ON USG AND ALSO WILL ATTACK HER GOVERNMENT FOR

ALLEGEDLY SELLING OUT TO "IMPERIALISTS". THESE ATTACKS, HOWEVER, SHOULD NOT AFFECT CURRENT GOOD US-SRI LANKA RELATIONS. END SUMMARY.

2. I HAD OPPORTUNITY TO TALK ABOUT RECENT POLITICAL DEVELOPMENTS WITH PRIME MINISTER BANDARANAIKE DURING SMALL DINNER SHE GAVE SEPTEMBER 11 IN HONOR OF FORMER AMBASSADOR FRANCES WILLIS. DINNER WAS TRIBUTE TO MISS WILLIS AND REPRESENTED HIGH ESTEEM IN WHICH SHE IS HELD DESPITE PROBLEMS SHE FACED WHEN MRS. BANDARANAIKE'S FIRST GOVERNMENT TOOK OVER AMERICAN OIL COMPANIES IN 1963. (IN ANOTHER GETURE, PRESIDENT GOPALLAWA GAVE LUNCH FOR MISS WILLIS.) PM, WHO WAS IN RELAXED MOOD, EXPRESSED RELIEF THAT ONE-MONTH CABINET CRISIS WAS OVER AND PLEASURE THAT SHE WAS EMBARKING ON NEW COURSE WITHOUT MEMBER OF TROTSKYITE LANKA SAMA SAMAJA PARTY (LSSP).

3. REVIEWING EVENTS LEADING UP TO LSSP OUSTER, MRS BANDARANAIKE PLACED PRIMARY STRESS ON WHAT SHE REGARDED AS EFFORTS OF FORMER COALITION PARTY TO STRENGTHEN ITS POSITION AT EXPENSE OF HER SRI LANKA FREEDOM PARTY (SLFP). HER BREAK WITH LSSP WAS CULMINATION OF LONG PERIOD INTERNAL STRAIN EXTENDING BACK AS FAR AS APRIL 1974 CURFEW WHICH SHE IMPOSED, IN PART, TO INSURE THAT LSSP MILITANTS DID NOT USE PHYSICAL VIOLENCE AGAINST OPPOSITION UNITED NATIONAL PARTY (UNP). DESPITE MILITANCY SHOWN BY LSSP TOWARD UNP AT THAT TIME, PM THOUGHT IT WAS REVEALING THAT IN HIS LONG SPEECH IN PARLIAMENT SEPT 3, OUSTED FINANCE MINISTER N.M. PERERA HAD DIRECTED HIS ATTACK PRIMARILY AT HER AND SLFP AND HAD IGNORED UNP.

4. PM SAID SHE HAD TAKEN A CALCULATED RISK IN EJECTING LSSP, BUT SHE THOUGHT SHE WAS IN CONFIDENTIAL

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REASONABLY SECURE POSITION. SECURITY FORCES HAD BEEN CONSIDERABLY STRENGTHENED SINCE APRIL 1971 INSURGENCY. AND BECAUSE BROAD RANGE OF LEGISLATION FAVORABLE TO TRADE UNIONS HAD BEEN PASSED IN RECENT YEARS, IT WAS UN- LIKELY THAT LSSP UNIONS WOULD TROUBLE HER AS THEY HAD HER HUSBAND, WHO EXPERIENCED OVER 400 STRIKES DURING 1956-59 PERIOD. IN ADDITION,

FOOD SITUATION HAD IMPROVED APPRECIABLY DURING PAST YEAR, WHICH SHOULD HELP TO DAMP DOWN DISCONTENT.

5. DESPITE SEEMINGLY STABLE SITUATION, PM NONETHELESS VOICE CONSIDERABLE CONCERN REGARDING CRITICAL ECONOMIC PROSPECTS, PARTICULARLY PROBLEM OF HANDLING FOREIGN EXCHANGE GAP OF ABOUT US \$149,407,802 (RS ONE THOUSAND ONE HUNDRED MILLION). FORMER FINANCE MINISTER PERERA SEEMED TO HAVE BEEN MOVING IN DIRECTION OF ACCEPTING IMF PACKAGE PROPOSAL UNDER WHICH, IN RETURN FOR OVER US \$90 MILLION IN IMF ASSISTANCE, GSL WOULD UNDERTAKE NUMBER OF MEASURES, INCLUDING ADJUSTMENT OF EXCHANGE RATE (PM AVOIDED TERM "DEVALUATION"). IF RATES WERE ADJUSTED, IT WAS ESTIMATED THAT, IN ADDITION TO SORELY-NEEDED FOREIGN EXCHANGE, GSL DOMESTIC BUDGET WOULD REALIZE RS 600-700 MILLION. THESE FUNDS COULD BE USED TO CUSHION ADVERSE POLITICAL IMPACT OF RATE ADJUSTMENT, BY MAKING WAGE INCREASES OR BY INCREASING PURCHASE PRICE FOR PADDY. SITUATION, HOWEVER, HAD CHANGED WITH N.M. PERERA NOW IN OPPOSITION. IF GSL ACCEPTED IMF PACKAGE, PERA WOULD CHARGE THAT IT HAD SOLD OUT TO THE "IMPERIALIST" IMF.

6. IN FACE OF THIS OPPOSITION, MRS BANDARANAIKE SAID SHE QUESTIONED WHETHER GSL COULD RISK ADJUSTING RATES UNTIL THE NEW FINANCE MINISTER, FELIX DIAS BANDARANAIKE, HAD PROVIDED RELIEF TO PEOPLE THROUGH NEXT BUDGET. SPECIFICALLY, IT

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MIGHT BE POSSIBLE TO BRING DOWN TEXTILE PRICES WHICH WOULD BE POPULAR MEASURE. I SAID THAT WHILE IT WAS NOT FOR ME TO MAKE JUDGMENTS ON INTERNAL MATTERS, MY PERSONAL OBSERVATION HAD BEEN THAT THE LONGER A GOVERNMENT DELAYED IN RATIONALIZING EXCHANGE RATES, THE MORE DIFFICULT IT WAS TO MAKE THE TOUGH POLITICAL DECISIONS.

7. PM EXPLAINED THAT ALTHOUGH SLFP HAD MAJORITY IN PARLIAMENT, SOME SLFP BACKBENCHERS WERE RELUCTANT TO FACE POLITICALLY DISTASTEFUL DECISION SUCH AS RATE ADJUSTMENT, BECAUSE THEY FEARED THAT SUCH A MOVE WOULD WIDEN SPLIT BETWEEN SLFP AND LSSP. THIS WOULD MAKE IT LESS LIKELY THAT LSSP-SLFP NO-CONTEST PACTS

COULD BE NEGOTIATED IN ADVANCE OF NEXT ELECTIONS.
WITHOUT SUCH PACTS MANY PARLIAMENTARIANS FEARED
THEY WOULD LOSE TO UNP IN THREE-WAY ELECTION
CONTEST.

8. TURNING TO FOREIGN AFFAIRS, PM SAID THAT
SHE HAD BEEN INVITED BY FAO ROME NEXT MONTH TO
RECEIVE CERES AWARD AND HAD CONSIDERED
PROCEEDING FROM ROME DIRECTLY FOR VISIT TO
SEVERAL SOUTHEAST ASIAN COUNTRIES. SHE WAS
NOW REVIEWING SOUTHEAST ASIAN TRIP BECAUSE IT
MIGHT BE UNWISE TO BE OUT OF COUNTRY FOR
EXTENDED TIME DURING PRESENT TRANSITION PERIOD.
IN ONLY REFERENCE TO SOUTH ASIA, SHE SAID SHE
HAD TALKED ABOUT INDIAN SITUATION SAME DAY
WITH VISITING MEMBER OF SRI LANKA HIGH
COMMISSION IN DELHI, WHO HAD TOLD HER THAT
PRIME MINISTER INDIRA GANDHI WAS IN FULL CONTROL
OF SITUATION THROUGHOUT INDIA.

9. I TOOK OPPORTUNITY TO DISCUSS USG-GSL
BILATERAL RELATIONS BY NOTING THAT, WHILE
LSSP MEMBERS OF FORMER COALITION HAD PERIODICALLY
LEVELED CHARGES AGAINST US, THEY OPERATED UNDER
CERTAIN CONSTRAINTS. THESE CONSTRAINTS WERE
NO LONGER PRESENT. I THEREFORE CONSIDERED
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IT LIKELY THAT LSSP WOULD ATTACK HER
RECONSTITUTED GOVERNMENT FOR CATERING
"REACTIONARY" ELEMENTS AT HOME AND "IMPERIALISM"
ABROAD, WITH SPECIFIC REFERENCE TO US AND
CIA. UNDER CIRCUMSTANCES, I HOPED SRI LANKA GOVERNMENT
WOULD NOT BECOME OVERLY DEFENSIVE
REGARDING ITS RELATIONS WITH US AND I SAW NO
REASON WHY GOOD RELATIONS SHOULD NOT CONTINUE AS
BEFORE.

10. PM AGREED LSSP ATTACKS ON HER GOVERNMENT AND US
WOULD PROBABLY BE INTENSIFIED, BUT INDICATED THAT
THERE WAS NO REASON FOR THIS AFFECT PRESENT
GOOD RELATIONS. SHE ADDED THAT SHE HAD READ
SECRETARY KISSINGER'S UN SPECIAL SESSION
SPEECH WHICH I HAD SENT HERE AND REGARDED IT
AS POSITIVE STEP INCLOSING THE GAP BETWEEN
DEVELOPING AND DEVELOPED COUNTRIES AND IN
HOLDING OUT PROSPECT FOR CONSTRUCTIVE
DIALOGUE ON CONCRETE ISSUES.
VAN HOLLEN

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